

**Audit Committee  
Meeting Minutes  
January 20, 2005**

**Council Conference Room, Second Floor, City Hall  
3939 North Drinkwater Boulevard  
Scottsdale, AZ 85251**

**Members Present:** Chairman Lane  
Committee member Ecton  
Committee member Littlefield joined the meeting at 3:48 p.m.

**City Staff Present:** Cheryl Barcala, City Auditor  
Lisa Blyler, Assistant to the Mayor and Council  
Craig Clifford, Financial Services General Manager  
Myron Kuklok, Risk Management Director  
Brent Stockwell, Assistant to the Mayor and Council

The meeting was called to order at 3:36 p.m. by Chairman Lane.

Minutes of the January 11, 2005, Audit Committee Meeting were approved by a vote of 2/0. Committee member Littlefield was not yet present.

**General Business:**

**Item 1** – The Safety Program Audit Report was reviewed and items on the cover memo from Ms. Barcala were addressed. Item 1 stated that a tracking mechanism for safety-related costs is not in place. This inhibits the ability to determine if adequate funding is provided. The costs are being buried within individual departments. The Smith Driving School is one example of a program that gets lost within the Police Department's costs. Committee member Ecton asked if the dollars spent on safety actually reflect the quality of the safety program in general. He does not feel it is necessary to know exactly what is spent. Mr. Clifford commented that the audit was appreciated and recommendations, for the most part, were agreeable to Management. He stated that the effectiveness of Risk Management relies on a focus on safety and mitigation of claims. He informed the Committee that the entire amount spent on the Risk Management Program is approximately \$5 million. He provided a list of estimated safety program costs. It included paid losses and administrative expenses, which are allocated back to specific departments based on headcount and payroll measures. Mr. Clifford stated that while there is no specific center that aggregates a set dollar amount to each department, the dollars can in fact be estimated and are illustrated in the list provided. A total cost column lists close to \$900 thousand and indirect costs total almost \$400 thousand. The direct department costs are charged back to each department. Risk Management is deemed the overseer of the safety program within City Code. Mr. Clifford added that regardless of the system used to track expenses, there is no finite and conclusive mechanism to determine the exact amount since many of the safety and risk-related

programs go hand-in-hand. He feels this is a judgment call for Management and that the estimates will become more accurate with time and experience. Committee member Ecton inquired about the ability to track time sheets, safety shoe purchases, etc. He wondered if accounts could be established to monitor these types of expenses. Mr. Clifford stated that there are specific accounts in which to charge protective related equipment. Mr. Clifford then stated that the estimated information would prove beneficial in an annual format, which he intends to provide within the Risk Management Report. He reiterated that the audit was helpful in pointing out this need, but tracking of expenditures too closely will only result in an additional expense to track those expenditures and not necessarily add to the value of the program. He stated that if resources were unlimited to perform such tasks he would oblige without objection. Committee member Ecton pointed out that the Committee is not there to decide what Management should do, but to be aware of the recommendations of the Auditor. Mr. Clifford informed the Committee that approximately \$390 is spent on each employee per year for safety. However, training occurs for employees that need it, so this number reflects an average only. It would not make sense to impose training on employees who have no need for it. Committee member Littlefield prompted clarification by stating that two issues were at hand: the first is the question of a City Code requirement and the second concerns whether staff in need of training are receiving it. Ms. Barcala stated that there is in fact adequate management of the safety program by Risk Management, so Code is not being violated. She added that if more detail is available on the costs incurred related to the program, however, there will be more assurance for future funding, and that dollars are not used in areas that are not specifically allocated for training, materials, equipment, etc. Mr. Kuklok reiterated that over time, the estimates would be more precise. Mr. Clifford reiterated that he hesitates to add costs to a program only for the purpose of tracking the costs. He stated that Risk's view is more conservative than that of OSHA. Mr. Clifford also noted that the City has chosen not to have line item controls within the budgetary process due to the size of the City's budget. Committee member Ecton reiterated that the purpose of the agenda item was to gain understanding, not to direct Management and that the next item should be addressed.

Item 2 of the memo addressed the lack of definition or delineation between Safety and Loss Prevention Programs. Ms. Barcala stated that the terms seem to be used interchangeably within Risk Management documentation. Mr. Kuklok commented that a new AR is in the process of revision to implement Ms. Barcala's recommendations. He added that OSHA does not delineate much between the two terms and has no concern as to what amount is spent on the programs. They are merely concerned with effectiveness and adherence to requirements. Ms. Barcala added that policies and procedures for the department itself should be in place for the administration of the safety programs. She noted that City Code currently exists which discusses departmental management, however, Code is a higher level of written direction and departmental level procedures should be documented as well, as with any department. Mr. Kuklok responded that each staff member has procedures written related to their specific job within Risk Management. Mr. Clifford added that he has already addressed this issue with Mr. Kuklok noting that while there are many good training programs in

place, there is no "front end to the train." He acknowledged the need for consistency in referencing and nomenclature. He felt that it was a matter of syntax and hair-splitting. He noted that while no comprehensive policies and procedures are in place for the department, there are limited resources available to create such documentation.

Item 3 noted that an incorrect term had been used, and should be listed as biennial, not bi-annual. Mr. Kuklok agreed.

For the final item on the memo, item 4, discussion centered on whether specific positions should be reviewed to determine whether or not certain types of safety-related training is needed. While Ms. Barcala noted that training is not occurring for all individuals, even those deemed appropriate for such training, Mr. Kuklok noted that the approach is more conservative than what is required and any staff who have not been properly trained will either be trained or have already been trained but there is an error in the department's recordkeeping. Every effort will be made to double-check records so that training occurs where needed. Committee member Littlefield was concerned that some staff members are not getting the training they need. He inquired as to where the responsibility lies. Mr. Kuklok answered that Risk Management is responsible and the staff member's General Manager will be contacted to ensure training is obtained once the records have been reviewed and/or updated.

**Item 2** – Ms. Barcala introduced the material provided in the agenda packet. She elaborated on Attachment 1, which spells out the purpose of the Performance Management System. Items from Committee member Ecton's e-mail to Ms. Barcala of May 3, 2004, were discussed. The first item was rejected since many recommendations do in fact save costs in process time etc., but the savings are not always measurable. Committee member Ecton stated that his goal with the item was to advocate hard dollar savings through recommendations versus additional costs incurred to implement recommendations. There was debate as to whether the second item was reasonable, in that outside influence is possible when there is pressure to make recommendations which will be accepted by Management. Chairman Lane wanted to ensure that no frivolous recommendations were made, but that writing them toward the goal of Management approval hinders objectivity. Committee member Ecton noted that he and Ms. Barcala had spoken in great detail about the list of items and is open to any input from the rest of the Committee. Mr. Stockwell noted that the Performance Measures portion of the budget process was being reviewed for all departments. It was agreed that the Committee would further review the list and Performance Measures would be addressed in the future.

**Item 3** – Ms. Barcala noted that the Audit Plan is scheduled for Council approval on February 8, 2005. She expressed a need for direction to begin the next audit. It had been decided at the last Audit Committee Meeting that staff would conduct two HR related audits as upcoming projects. The Committee voted unanimously to authorize the initiation of work for the medical leave/payoff conversion audit to begin, with Committee member Ecton voicing concern over Management's ability to participate at this time. Mr. Shearer stated that to his knowledge there are tight practices in place

internally for this program and an audit right now would not pose any major disruption to HR staff.

**Item 4** – Written preliminary surveys on the Asset Management Audit were submitted to the Audit Committee. At this time, there is no tracking mechanism for purchases less than \$5,000; therefore, there is nothing to audit. An audit could occur for property over \$5,000. No master lease list is available as leases are kept at various locations. While the City Attorney's Office may sign off on Council Actions related to leases, no tracking of such leases is available.

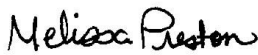
**Public Comments** – None.

**Committee Comments** – None.

It was noted that the next meeting should occur March 23, 2005, unless another report is released before that time.

With no further business to discuss, the public meeting of the Audit Committee was adjourned at 5:35 p.m.

Respectfully submitted,



Melissa Preston